



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76755; File No. SR-BYX-2015-52]

### **Self-Regulatory Organizations; BATS Y-Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Proprietary Trader and Proprietary Trader Principal Registration Categories, Securities Trader and Securities Trader Principal Registration Categories, and Establishing the Series 57 Examination**

December 23, 2015

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 22, 2015, BATS Y-Exchange, Inc. (the “Exchange” or “BYX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### **I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange filed a proposal to retire the Proprietary Trader and Proprietary Trader

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

Principal registration categories and to establish the Securities Trader and Securities Trader Principal registration categories. The Exchange is also amending its rules to establish the Series 57 examination as the appropriate qualification examination for Securities Traders and deleting the rule referring to the S501 continuing education program currently applicable to Proprietary Traders. The Exchange will announce the effective date of the proposed rule change in a circular distributed to Members.

The text of the proposed rule change is available at the Exchange's website at [www.batstrading.com](http://www.batstrading.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing herein to replace the Series 56 with the Series 57 examination and to make various related changes to its registration rules. Specifically, in response to the FINRA Amendments (defined below), the Exchange is proposing to retire the Proprietary Trader<sup>5</sup> registration categories from its own registration rules relating to securities trading

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<sup>5</sup> Rule 2.5, Interpretation and Policy .01(f).

activity. It is also therefore retiring its Proprietary Trader Principal<sup>6</sup> registration category. To take the place of the retired registration categories, the Exchange is establishing new Securities Trader and Securities Trader Principal registration categories. This filing is based upon and in response to SR-FINRA-2015-017, which was recently approved by the Commission.<sup>7</sup>

#### New Securities Trader Registration Category

Currently, under Exchange Rule 11.4(e), each person associated with a member who is included within the definition of an “Authorized Trader” in Rule 1.5(d) is required to register with the Exchange and to pass an appropriate qualification examination before such registration may become effective. The Exchange recognizes the following qualification examinations as acceptable for purposes of registration as an Authorized Trader: Series 7, Series 56, or one of several foreign securities examination modules.

Interpretation and Policy .01(f) of Exchange Rule 2.5 currently provides that a person may register with the Exchange as a Proprietary Trader if such person engages solely in proprietary trading, passes the Series 56 examination and is an associated person of a proprietary trading firm as defined in Interpretation and Policy .01(g) of Exchange Rule 2.5. Therefore, pursuant to Interpretation and Policy .01 to Exchange Rule 2.5, an individual meeting these criteria may register in the Proprietary Trader category after passing the Series 56 examination rather than as a General Securities Representative after passing the Series 7 examination or equivalent foreign securities examination module.

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<sup>6</sup> Rule 2.5, Interpretation and Policy .01(d).

<sup>7</sup> See Securities Exchange Act Release No. 75783 (August 28, 2015), 80 FR 53369 (September 3, 2015) (approving SR-FINRA-2015-017) referred to herein as the “FINRA Amendments.” According to the release, FINRA’s expected effective date for the FINRA Amendments is January 4, 2016.

In consultation with FINRA and other exchanges, and in order to harmonize the requirements for individuals engaged in trading activities, the Exchange is now proposing to retire the Proprietary Trader registration category. Similarly, the Exchange is proposing to adopt a new Securities Trader registration category.

Under Exchange Rules, as revised, each person associated with a member who is included within the definition of Authorized Trader will be required to register as a Securities Trader unless they instead qualify based on the Series 7 examination or an equivalent foreign securities examination module. Therefore, representatives who previously qualified for Proprietary Trader registration will be required to register as Securities Traders. Accordingly, the Exchange is proposing to modify paragraph (f) of Interpretation and Policy .01 to reflect the new Securities Trader qualification as a permissible registration for Authorized Traders of Members that engage solely in trading on the Exchange on either an agency or principal basis. In order to register as a Securities Trader, an applicant would be required to have passed the new Securities Trader qualification examination (Series 57) or a predecessor examination (i.e., the Series 56, as described below).

A person registered as a Proprietary Trader in the Central Registration Depository (CRD®) system on the effective date of the proposed rule change will be grandfathered as a Securities Trader without having to take any additional examinations and without having to take any other actions. In addition, individuals who were registered as Proprietary Traders in the CRD system prior to the effective date of the proposed rule change will be eligible to register as Securities Traders without having to take any additional examinations, provided that no more than two years have passed between the date they were last registered as a representative and the date they register as a Securities Trader.

Persons registered in the new category would be subject to the continuing education requirements of Interpretation and Policy .02(e) to Rule 2.5. The Exchange proposes to amend Interpretation and Policy .02(e) by removing the option for Series 56 registered persons to participate in the S501 Series 56 Proprietary Trader continuing education program in order to satisfy the Regulatory Element. The S501 Series 56 Proprietary Trader continuing education program is being phased out along with the Series 56 Proprietary Trader qualification examination. As a result, effective January 4, 2016, the S501 Series 56 Proprietary Trader continuing education program for Series 56 registered persons will cease to exist. In place of the S501 Series 56 Proprietary Trader continuing education program for Series 56 registered persons, the Exchange proposes that Series 57 registered persons be required to take the S101 General Program for Series 7 and all other registered persons.

New Securities Trader Principal Registration Category.

Currently, under Interpretation and Policy .01(d), the Exchange requires each Member to register “Principals”<sup>8</sup> with the Exchange. The Exchange requires the Series 24 examination to register as Principal. The Exchange will also accept the New York Stock Exchange Series 14 Compliance Official Examination in lieu of the Series 24 to satisfy the Principal examination requirement for any person designated as a Chief Compliance Officer. Further, in addition to the Series 24 or Series 14, in order to supervise the activities of General Securities Representatives a Principal generally must complete the Series 7 or an equivalent foreign examination module as a prerequisite to the Series 24 or Series 14. However, the Exchange currently permits the Series 56 as a prerequisite to the Series 24 or Series 14 for those Principals whose supervisory

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<sup>8</sup> Pursuant to Interpretation and Policy .01(d) to Rule 2.5, a Principal is “any individual responsible for supervising the activities of a Member’s Authorized Traders and each person designated as a Chief Compliance Officer on Schedule A of Form BD.”

responsibilities are limited to overseeing the activities of proprietary traders, as described above. Like the Proprietary Trader category discussed above, the Proprietary Trader Principal registration category is being retired. Accordingly, the Exchange proposes to modify the references in the Rule regarding the prerequisite to the Series 24 or 14 for an individual that will supervise Series 57 qualified traders to correspond with the new Securities Trader exam. The Exchange proposes to establish the Securities Trader Principal category in Interpretation and Policy .01(d).

The Exchange has been working with other exchanges and FINRA to develop this new principal registration category and believes that it is an appropriate corollary to the new Securities Trader representative registration category. To qualify for registration as a Securities Trader Principal, an applicant must become qualified and registered as a Securities Trader under proposed Interpretation and Policy .01(c) and pass either the Series 24 or Series 14 examination. A person who is qualified and registered as a Securities Trader Principal would only be permitted to have supervisory responsibility over the activities of Securities Traders, unless such person were separately qualified and registered in another appropriate principal registration category, such as the General Securities Principal registration category. Conversely, the proposed rule change clarifies that each principal who will have supervisory responsibility over registered Securities Traders is required to become qualified and registered as a Securities Trader Principal.

A person registered as a General Securities Principal and as a Proprietary Trader Principal in the CRD system on the effective date of the proposed rule change will be eligible to register as a Securities Trader Principal without having to take any additional examinations. An individual who was registered as a General Securities Principal and as a Proprietary Trader

Principal in the CRD system prior to the effective date of the proposed rule change will also be eligible to register as a Securities Trader Principal without having to take any additional examinations, provided that no more than two years have passed between the date they were last registered as a principal and the date they register as a Securities Trader Principal. Members, however, will be required to affirmatively register persons transitioning to the proposed registration category as Securities Trader Principals on or after the effective date of the proposed rule change.

#### Other Changes

In order to accomplish the changes proposed above, the Exchange has proposed modifications throughout Interpretation and Policy .01 and .02 to Rule 2.5 as well as Rule 11.4(e) to eliminate references to Proprietary Trader, Proprietary Trader Principal, and Series 56 examination and to replace such references with Securities Trader, Securities Trader Principal and Series 57 examination. The Exchange also proposes to modify Rule 11.6, which sets forth the registration requirements applicable to Market Maker Authorized Traders, or MMATs, to cross-reference Interpretation and Policy .01 and .02. Although Rule 11.6 currently requires an MMAT to qualify by taking the Series 7 examination, the Exchange does not intend to impose different registration or continuing education requirements on MMATs than are required of Authorized Traders generally. In addition to these changes, the Exchange proposes to delete paragraph (h) to Interpretation .01, which currently states that: “Principals responsible for supervising the activities of General Securities Representatives must successfully complete the Series 7 or an equivalent foreign examination module in addition to the Series 24.” The Exchange proposes to eliminate this provision as duplicative with existing language in Interpretation and Policy .01, including paragraph (d), which states that “[i]ndividuals that supervise the activities of General

Securities Representatives must successfully complete the Series 7 or an equivalent foreign examination module as a prerequisite to the Series 24 or Series 14 and shall be referred to as General Securities Principals.” The Exchange also proposes to modify a reference in Interpretation and Policy .01(e) from “General Securities Representative Principal” to “General Securities Principal.” In addition, the Exchange proposes to eliminate the fees applicable to the Series 56 examination as well as the fees associated with the continuing education necessary to maintain registration after passing the Series 56 examination. Consistent with all other examinations recognized by the Exchange, FINRA will administer the Series 57 examination and the continuing education requirements related thereto, and the Exchange will not be separately charging and collecting any fees in order to take such examination or participate in applicable continuing education. Finally, in order to continue to align the Exchange’s rules with the rules of its affiliated exchanges, the Exchange proposes to adopt descriptive headings in Interpretation and Policy .02 to Rule 2.5 based on Interpretation and Policy .02 to Rule 2.5 of the rules of EDGA Exchange, Inc. and EDGX Exchange, Inc. and to modify the language, but not the substance, of Rule 11.4(e).

## 2. Statutory Basis

The Exchange believes that proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>9</sup> which requires, among other things, that the Exchange’s rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that the requirements of the Securities

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<sup>9</sup> 15 U.S.C. 78f(b)(5).

Trader and Securities Trader Principal registration categories, as well as the new Securities Trader qualification examination, should help ensure that proprietary traders and the principals who supervise proprietary traders and proprietary trading are, and will continue to be, properly trained and qualified to perform their functions which should protect investors and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

Implementation of the proposed changes to the Exchange's registration rules in coordination with the FINRA Amendments does not present any competitive issues, but rather is designed to provide less burdensome and more efficient regulatory compliance for members and enhance the ability of the Exchange to fairly and efficiently regulate members, which will further enhance competition. Additionally, the proposed rule change should not affect intramarket competition because all similarly situated representatives and principals will be required to complete the same qualification examinations and maintain the same registrations.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (A) Significantly affect the protection of investors or the public interest; (B) impose any significant burden on competition; and (C) by its terms, become operative for 30 days from the date on which it was filed or such shorter time as the Commission may designate it has become effective pursuant to Section

19(b)(3)(A) of the Act<sup>10</sup> and paragraph (f)(6) of Rule 19b-4 thereunder,<sup>11</sup> the Exchange has designated this rule filing as non-controversial. The Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

The Exchange has requested that the Commission waive the thirty-day operative delay so that the proposal may become operative as of January 4, 2016. The Exchange states that waiving the thirty-day delay would allow the Exchange to eliminate the Proprietary Trader and Proprietary Trader Principal registration categories and adopt the Securities Trader and Securities Trader Principal registration categories at the same time as FINRA and the other national securities exchanges. The Commission believes that waiving the thirty day delay is consistent with the protection of investors and the public interest, as it will enable BYX to have the new requirements in effect at the same time as the other SROs . Therefore, the Commission hereby waives the thirty-day operative delay and designates the proposal operative as of January 4, 2016.<sup>12</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (1) Necessary or appropriate in the public interest; (2) for the protection of investors; or (3) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

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<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 17 CFR 240.19b-4.

<sup>12</sup> For purposes of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-BYX-2015-52 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-BYX-2015-52. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BYX-2015-52 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>13</sup>

**Brent J. Fields,**  
*Secretary.*

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<sup>13</sup> 17 CFR 200.30-3(a)(12).

